



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 11/15/2005

GAIN Report Number: SF5040

South Africa, Republic of

Retail Food Sector

Retail Food Sector Report

2005

Approved by:

Scott Reynolds

U.S. Embassy, South Africa

Prepared by:

Margaret Ntloedibe

Report Highlights:

South Africa's economic situation and strength of the rand continue to improve, increasing opportunities for U.S. food products in South Africa. The South African retail market consists of a few major supermarkets chains, convenience chains, and some independent stores. Currently 54% of retail sales occur in major supermarkets chains, Shoprite, Pick n Pay, Spar and Woolworths. It is predicted that this figure will reach 60% in 2008, which is in line with the global trends. Increased growth in all corporate stores is predicted, as well as an increased growth in franchise and voluntary groups. The awarding to South Africa of the 2010 Soccer World Cup is expected to result in \$350 million in improvements and investment projects, and that will result in further growth in the food and beverage sector.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Pretoria [SF1]
[SF]

TABLE OF CONTENTS

Section 1.	Market Summary	Page 3 of 16
1.1	Advantages and Challenges Facing U.S. Products in South Africa	Page 6 of 16
Section 2.	Road Map for Market Entry	Page 7 of 16
2.1	Supermarket	Page 7 of 16
2.1.1	Entry Strategy	Page 7 of 16
2.1.2	Market Structure	Page 8 of 16
2.1.3	Major Supermarket profile	Page 8 of 16
2.2	Convenience Stores	Page 11 of 16
2.2.1	Entry Strategy	Page 11 of 16
2.2.2	Market Structure	Page 12 of 16
2.2.3	Major Convenience stores profile	Page 12 of 16
2.3	Traditional Markets	Page 12 of 16
2.3.1	Entry Strategy	Page 12 of 16
2.3.2	Market Structure	Page 13 of 16
2.3.3	Traditional market profile	Page 13 of 16
Section 3.	Competition	Page 13 of 16
Section 4.	Best Products Prospects	Page 14 of 16
A.	Products present in the market which have good sales Potential	Page 14 of 16
B.	Products Not Present in significant quantities but Which have good sales potential	Page 15 of 16
C.	Products Not Present Because They Face Significant Barriers	Page 15 of 16
Section 5.	Post Contact and further information	Page 16 of 16

Section 1: Market Summary

South Africa, with a population of around 45 million people, possesses a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout southern Africa and well-developed financial, legal, communications, energy, and transport sectors. Although South Africa's economy has grown slowly and steadily in each of the past 45 quarters, the value of the rand has fluctuated widely against world currencies, causing food retailers to continually update their selection of imported and locally produced items. There are many players in the food retail industry in South Africa. On the high end South Africa has highly sophisticated retail chain supermarkets such as Shoprite-Checkers, Pick n Pay, Spar, Woolworths; wholesale outlets such as Makro, Metro, Trade Center, Cash & Carry; independent stores such as Biforce Group, Bargain Group, Shield Wholesalers; convenience chain stores including forecourts (gas stations with convenience type stores); traditional stores which includes independent stores such as general dealers, cafes, spaza shops, street vendors, hawkers, tuck shops, and primitive little street corner stalls at the other end of the retail sector. The South African food and beverage market is becoming increasingly sophisticated and is supplied by both local and imported products.

South Africa's economic situation and strength of the rand continue to improve, increasing opportunities for U.S. food products in South Africa. The South African retail market consists of a few major supermarkets chains, convenience chains, and some independent stores. According to ACNielsen Research, currently 54% of retail sales occurs in the major supermarkets chains, Shoprite, Pick n Pay, Spar and Woolworths. It is predicted that this figures will reach 60% in 2008, which is in line with the global trends. The food retail sector continues to expand, while supermarkets, convenience stores and forecourts are rapidly becoming the dominant food retail outlets. A boom in the franchise sector, convenience stores, and forecourts, which are good venues for imported products, provide better access and convenience for the consumers.

The awarding to South Africa of the 2010 Soccer World Cup is expected to result in \$350 million in improvements and investment projects, and will impact the overall growth in the food and beverage sector. Best prospects for U.S. products include several high value products like almonds, cultivated ginseng root, canned salmon, American bourbon whisky, new oak staves for wine barrels, sauces and frozen food preparations. These items have shown consistent growth over the last five years and represent important opportunities for U.S. exporters.

South Africa has a two-tiered economy, one rivaling other developed countries and the other with only the most basic infrastructure. It can be characterized as a productive and industrialized economy that exhibits many characteristics associated with developing countries, including a division of labor between formal and informal sectors-and uneven distribution of wealth and income. The formal sector, based on mining, manufacturing, services, and agriculture, is well developed.

Retail trade outlets in South Africa offer the full spectrum available in the United States. These range from the neighborhood convenience drugstore (called cafés), to the small general dealer, specialty stores handling a single product line (for example, clothing, electronics, furniture), exclusive boutiques, chain stores (groceries, clothing, toiletries, household goods), department stores, cash and carry wholesale-retail outlets, to co-operative stores serving rural areas. About 90 percent of inventories of consumer-ready products in these stores are domestically sourced. A major phenomenon in South Africa has been the evolution of hypermarkets, which sell large quantities of almost all consumer goods on a self-serve basis. The hypermarkets, located in suburban shopping centers/malls, have disrupted the traditional distribution chain by purchasing directly from manufacturers and

bypassing the wholesaler, and with low margins achieving high turnover, thereby placing price pressure on all competing outlets.

Many U.S. exporters of consumer goods sell directly to South African retail organizations, such as department stores, chain stores, and cooperative groups of independent retailers, which assume the functions of wholesale buying, selling, and warehousing.

It may be necessary to appoint an official after-sales agent for products of a technical nature in South Africa. This may be a company that does not import or market the product in question, but rather, because of its geographical reach, technical abilities and goodwill in the market, acts as the certified service agent. Appointing an appropriate after sales agent is crucial in ensuring that the product develops a respected reputation in the South African market.

South African food retailers serve a wide range of consumers. At one end, there are supermarkets very similar to those found in the United States. These shops provide most of the products and services found in U.S. grocery stores like processed foods, packaged meats and fancy produce. Some South Africans enjoy purchasing organic products and vegetables, a fast growing segment of the retail food market (lead by organic baby food). Many supermarkets serve pre-assembled meal items such as roasted chickens and cut vegetables ready for soup, stir-fry, salads etc, while others sell ready-made meals like sandwiches and sushi.

At the other end of the economic spectrum, consumers are also well served by a thriving informal sector. Spazas are independent grocers that are typically found in townships and generally specialize in staple foods like cornmeal, rice, cooking oils and meats. They may also sell soft drinks and other low-priced consumer oriented goods. The food retailer Pick n Pay has infiltrated the township market, and has opened stores in township areas, places that have been historically underserved by large supermarket style stores.

Consumer Tastes and Preferences: Despite the variety of options available to South African consumers, price sensitivity rules their behavior. A source survey in 2003 found that 47.8% based their decisions on price and 16.9% buy store brand (generic brand) items because they are good value for money. Only 13.4% mentioned quality as a motivator, while 4.3% perceived the store brand to be equal to name brand items. Products that are successful with store brand labels include milk, syrups, dry pasta, nuts, canned fruits and jellies.

Although many South Africans choose products according to price, consumers in townships often demonstrate contradictory demands and characteristics. For example, spazas and other informal shops tend to only supply leading brand items because their customers demonstrate strong brand loyalty. Adding to this trend is the fact that the black population's buying power is increasing. On the other hand, product attributes that may help a product succeed in township markets are less expensive and/or single service package sizes and ambient-stable products that do not require refrigeration. A local research company recently reported findings that confirm this, stating, "we have heard for the past 20 years that the [low income] consumer wants smaller packaging, but it is still amazing how many manufacturers do not heed that call."

South Africans love meat, and barbeque, called braai, is very popular. Braai products, such as sauces, are also popular, especially sweet and spicy flavors. A wide variety of meats are available, such as beef, beef sausages, lamb, game meats, and poultry. Fish is also gaining popularity as consumers are seeking healthier alternatives to meat. (South Africans eat

more beef and lamb than pork. It has been generalized that they eat about as much pork as Americans eat lamb, and as much lamb as Americans eat pork.)

According to ACNielsen research, health information is becoming an important component of food retailing. Consumers would like to see more health, nutritional and weight loss information in stores. These consumers will most likely fit in the categories of:

- 1) older female consumers who are interested in diet as a way to obtain good health in place of exercise,
- 2) young people and high Living Standard Measurement (LSM) consumers who are becoming increasingly aware of the importance of a good diet and exercise in order to maintain good health,
- 3) and low LSM consumers, many of whom are feeling the impact of HIV/AIDS on their families and are thus in need of healthy food products. However, due to hard financial times for poor South Africans, health products for low LSM consumers will not find a place on grocer's shelves unless they are developed as viable substitutes for basic staples.

An ACNielsen November 2004 study reveals that, of the 45-million South African population Kwazulu Natal is the most populous province, but this does not proportionately translate into retail sales. The spending power of South African consumers is located in largely in the Western Cape and Gauteng, which register the highest percentage of retail sales. What is interesting is that these percentage retail figures far outweigh these two provinces' population percentages. This would seem to reflect well on the notion of Cape Town and Johannesburg being the country's two biggest money spinners in terms of business, trade and industry. In fact, 50% of the country's retail sales occur in the Western Cape and Gauteng.

ACNielsen urges South African manufacturers to adopt a new attitude towards pricing, as South Africa holds a high 35% volume responsiveness level to a 10% price reduction, in comparison to the USA's 17% or UK's 20%. According to ACNielsen August 2005 studies, the Food sector is by far the most receptive to price reduction nationally, followed by the beverage sector. Building equity is particularly important in the Food Sector, as consumers are more inclined to shop around for special offers on food than they are in other sectors. On an average 750 item basket, the difference in pricing between the most and least premium major South African retailers is currently only 5%. This figures has come down from 7% two years ago, and emphasizes the importance of effective product distribution to all major retailers.

A steady increase in the number of households in South Africa, which is predicted to increase from the current number of 9.8 million to 11.2 million in 2008, signals a necessary increase in spending. Further good news for retailers is that South Africans are not great savers of their income. With a saving ratio of only 0.6%, as much 54% of income goes to repaying debt, with the rest being spent. Increased growth in all corporate stores is predicted, as well as increased growth in franchise and voluntary groups.

Trends in Online Sales: Online sales accounted for only 0.14% of the total retail market in 2004. Although the number of online retailers in South Africa has more than tripled since 2001, about eight businesses account for 80% of online sales. Of these eight websites, many are associated with an established retail shop (for example Woolworths and Pick n Pay) and other major wholesalers are able to offer specialized services like same day home deliveries and no cost returns. The most popular goods to purchase online are groceries, apparel and books. The fastest growing retail categories (in descending order) are flowers and gifts, apparel, food, beverages and groceries. Online sales in 2004 increased by 35%

and were expected to increase by 25% in 2005. Also, about 20% of 2004 online sales occurred during the November-December holiday season.

Food Standards and Regulations: The Department of Agriculture has developed food safety legislation. This food safety legislation was developed due to food safety requirements in the international community, for example the European Union (EU) legislation requiring full traceability. As from 1 January 2005, all products of plant origin for export must comply with this food safety legislation. The Department of Agriculture is currently conducting Food Safety road shows up until the end of November 2005, whereby all aspects relating to food safety requirements will be explained to food manufacturers and stakeholders.

South Africa's new Liquor Act came into effect on August 13, 2004. Effective Sunday November 7, 2004, South African Liquor outlets were allowed to sell alcoholic beverages on Sundays.

South African farmers and manufacturers are becoming increasingly responsive to food safety issues. As South African supermarkets and food distributors continue to integrate their food supply chains, they are able to better provide traceability/accountability services for consumers. This is especially important in order to satisfy export market demands. However, food safety has a much lower profile in South Africa than in the U.S. or Europe, perhaps due to fewer incidents or due to problems in identifying food safety problems. In 2002, South Africa approved a set of food safety regulations that embrace the important principles of HACCP and follow the Codex Alimentarius model. Under these regulations, exports to South Africa must meet the same food safety standards as apply to South African food producers. For more information on HACCP, please refer to [Regulations Relating to the Application of the Hazard Analysis and Critical Control Point System \(HACCP System\)](#) at www.doh.gov.za, (click on documents, then regulations.)

For further information, please read the Gain Report SF5029, the Food and Agricultural Import Regulations and Standards (FAIRS).

1.1 Advantages and Challenges Facing U.S. Products in South Africa:

Advantages	Challenges
South Africans are developing a taste for western foods and are willing to try anything once.	Consumers may need to be educated in preparing and eating products.
The growing retail food industry needs imported food and beverage products.	Acquired tastes and preferences for traditional, locally produced products.
Favorable exchange rate, strong rand with the weak dollar make American imports more affordable.	Competition from other countries and locally produced products. 90 percent of products of the retail outlets are locally produced. South Africa's major retailers have joined forces with the Proudly South African (PSA) campaign, launched by the Government, to give PSA suppliers preferential tendering for shelf space, and to promote South African products.
South Africa is a getaway for regional markets.	Consumers are price-conscious and some do not exhibit brand loyalty. Products must constantly be promoted.
South African consumers view U.S.	Retailers and consumers have limited

products as high quality.	knowledge about the variety of U.S. products.
South African importers seek suppliers who can offer reliable and quality products, consolidators of mix containers at competitive prices.	Challenging for U.S. suppliers to respond to trade lead inquiries in a timely fashion.
Importers and distributors can help develop brand loyalty.	

Section 2: Road Map for Market Entry

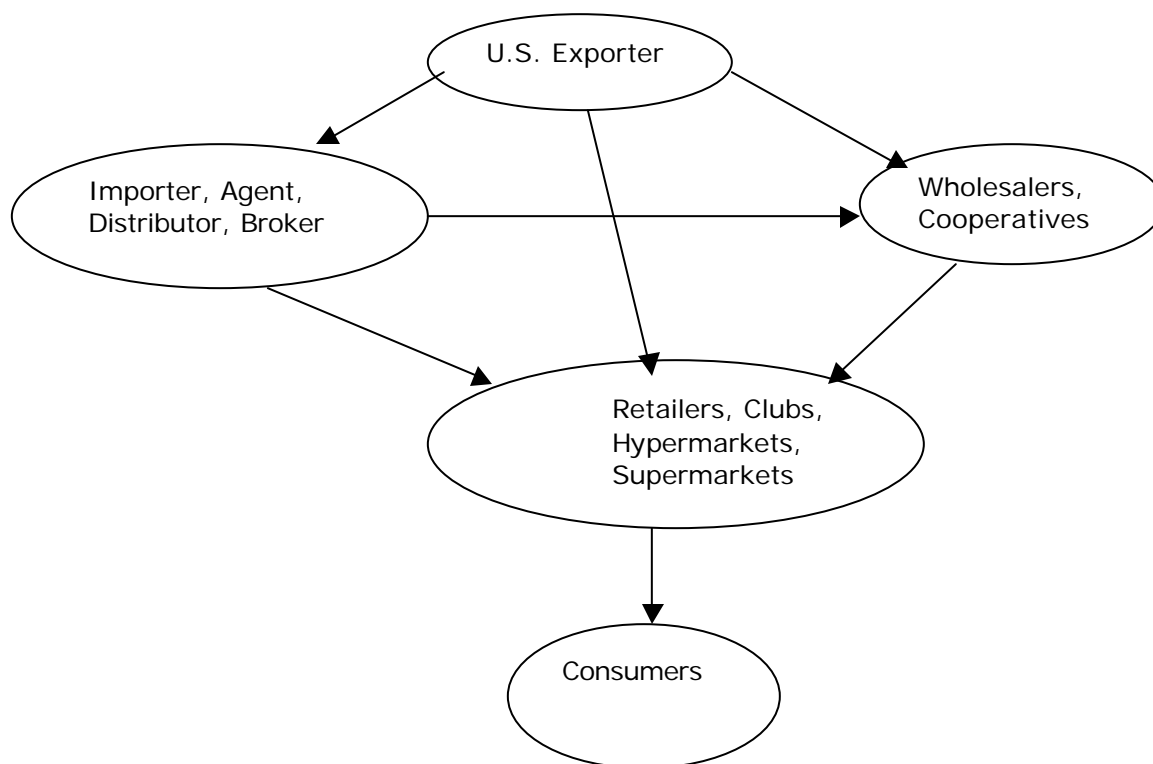
2.1 Supermarket:

2.1.1 Entry Strategy: Introducing a product successfully depends on promotion and supporting of the product to the consumer. In South Africa's very competitive marketplace it is essential that U.S. exporters choose the correct agent or distributor. Evidence shows that the most successful U.S. company ventures are those that have researched their market thoroughly before engaging in a search for agents and distributors. Once contacts are established it is advisable to visit South Africa since firsthand knowledge of the market is highly useful. Research has shown that a new opportunity in South Africa is aggressive marketing by sampling and advertising on board local airlines.

In South Africa the terms "Agent" and "Distributor" have a very specific meaning. Agents work on a commission basis after obtaining orders from customers. Distributors buy and sell products directly to their customers. It is common to appoint a single agent capable of providing national coverage either through one office or a network of branch offices. In addition to their role as the local representatives of U.S. exporters, agents should be able to handle the necessary customs clearance, port and rail charges, documentation, warehousing, and financing arrangements. Local agents representing foreign exporters outside South Africa who export goods to South Africa, are fully liable under the South African Import Control Law for all regulations and control imposed on imported products. Local agents are required to register with the Director of Import and Export Control of the Department of Trade and Industry. It is important for a U.S. exporter to maintain close contact with the local agent to track changes in importing procedures and to ensure that the agent is effectively representing his or her interests.

2.1.2 Market Structure:

Basic flow of imported food products:



- Retail supermarket chains maintain their own distribution systems, using warehouses to allocate goods to supermarket branches.
- Depending on the arrangements, in some instances imports are handled by the supermarket chain's head office or by branches themselves.
- Trends in the distribution channels show that some of the supermarkets are moving toward outsourcing the services of warehousing and transportation.

2.1.3 Major Supermarket profile:

Below is a chart of South Africa's major supermarket chains. For the most part, they offer much the same range of products and brands. Gaining a competitive edge through image and service is their major preoccupation. The retailers work hard at establishing their own particular appeal. Some, like Woolworths and Spar, do this by targeting a particular shopper segment, such as upper income groups. Others, like Pick n Pay and Shoprite-Checkers group, go head-to-head more on price and "shopping experience".

One common characteristics among these retail groups is enormous bargaining power. They are all able to dictate their buying terms to suppliers who are expected to deliver products to central depots or warehouses, where the products are then distributed to supermarkets and retail outlet stores. Shoprite-Checkers and Spar, for example, are very strong in the black areas (townships) whereas Woolworths is stronger in the smaller "up-market" segment. Most supermarkets sell their own-label products as well as manufacturer's brands. The retail industry prefers to buy directly from local manufacturers. For imported products, some

supermarkets prefer to deal directly with U.S. companies, because an import agent or a distributor acting as a middleman can add up to 30% to the cost of the product, resulting in less margin for the supermarket.

Retail Name	Ownership	Sales (\$Million)	Number of Outlets	Location	Purchasing Agent Type
Pick n Pay Group: - Pick n Pay Hypers - Pick n Pay Supers - Pick n Pay Family - Ritevalu - Score - Pick n Pay Minimarket - Boardmans - Franchise - Pick n Pay Gas Centers	Local/International	Not available	420	Nationwide	Direct/Importer
Shoprite Holdings: - Shoprite - Checkers - Checkers Hypers - Usave - OK Furniture - House & Home - Hungry Lyons - OK Foods - OK Grocer - OK Minimark - Sentra - Megasave - 8 'Till Late	Local/International	Not available	834	Nationwide	Direct/Importer
Woolworths: - Woolworths - CountryRoad - Woolworths (franchised)	Local/international	Not available	237	Nationwide	Direct/Importer
Spar: - Superspar - Spar - Kwikspar	Local/International	Not available	764	Nationwide	Direct/Importer

Pick n Pay: The Pick n Pay Group has been one of Africa's largest retailers of food, clothing and general merchandise for the past three decades. Pick n Pay has about 40 percent of the South African retail food sector. The group operates through three divisions, the Retail Division; the Group Enterprises Division; and Franklins Australia, each with their own Managing Director and Management Boards. The Retail Division manages Pick n Pay branded

businesses such as food, clothing and general merchandise in Hypermarkets, Supermarkets, Family Franchise Stores, Mini Market Franchise, Clothing, Butcheries Meat Centers, Home Shopping); and Gas Centers. The Group Enterprises Division operates the Group's other non-Pick n Pay branded group activities including Score Supermarkets, TM Supermarkets, property franchises, Go Banking, as well as finding new investment opportunities for the group worldwide. Pick n Pay has a total number of 420 stores made up of 15 Hypermarkets, 115 Supermarkets, 99 Family Stores, 3 Ritevalu, 38 Mini Market Franchise, 21 Boardmans, 116 Score Supermarkets, 3 Score Supermarkets Franchise, and 10 Pick n Pay Auto Centers.

According to the research by M+M Planet Retail – www.planetretail.net, in 2003 Pick n Pay was ranked number two of the top 10 retailers in Africa & the Middle East, with net sales of USD3.3 billion with a market share of 4.5%. The net sales only reflect the retailer's shareholdings in the countries where they operate.

The emphasis of the supermarket division is on total convenience and freshness, with stores aiming to add value through the fresh food supply chain. Traditionally Pick n Pay Score supermarkets have had a presence in townships when other retailers have stayed away. Pick n Pay is most modest of the high-end super market chains. It may be compared to Publix, Kroger, Victory or Safeway in the United States. Price points are similar to those in the U.S.

Shoprite Checkers: Shoprite Holdings has about 40 percent of the market and is comprised of the following entities: the Shoprite Checkers supermarket group, which consists of 252 Shoprite supermarkets, 85 Checkers Supermarkets, 23 OK Foods, 36 OK Grocer, 132 OK Furniture outlets, 22 Checkers Hypers, 43 Usave Supermarkets, 22 House and Home stores, and 37 Hungry Lion fast food outlets. Through its OK Franchise Division, the Group procures and distributes merchandise to 28 OK MiniMark convenience stores, three 8-Till Late outlets, 64 Megasave wholesale stores, and 94 Sentra Stores.

Checkers Hypers have a special section devoted entirely to imported foods as well as kosher and halal sections. Price points are also comparable to the U.S. Shoprite Checkers are similar to a Super WalMart or a Shoppers Food Warehouse type of shopping experience.

Shoprite Checkers sends a delegation of about 50 employees to the FMI show in Chicago in an average year. For most of these employees, their trip is linked to a sales or performance award, but several key buyers also attend the FMI show. If you are a U.S. company with a presence at FMI, then it is certainly possible to meet with a Shoprite Checkers buyer at the FMI show in Chicago.

Among South African retailers, Shoprite has the highest number of stores in neighboring Southern and Eastern African countries. According to the research by M+M Planet Retail – www.planetretail.net, in 2003 Shoprite was ranked number one of the top 10 retailers in Africa & the Middle East, with net sales of USD3.5 billion with a market share of 4.7%. The net sales only reflect the retailer's shareholdings in the countries where they operate.

Woolworths: Woolworths Holdings Limited (WHL) is a South African-based retail group that operates locally and internationally through two subsidiaries. Woolworths (Proprietary) Limited operates and franchises stores in South Africa, Africa and the Middle East; and Country Road Limited, listed on the Australian Stock Exchange, operates in Australia, New Zealand and Singapore. Woolworths offers select ranges of apparel, cosmetics, toiletries, footwear, jewelry and food under its own brand name. Woolworths has 237 stores, including 111 Owned Woolworths, 82 Franchised Woolworths, and 44 Owned and Franchised Country Road outlets.

Woolworths caters to the wealthiest South African consumers. The shopping experience isn't as up market as a Dean and DeLuca but it's comparable to the Whole Foods/Fresh Fields or Trader Joe's shopping experience in the U.S. They carry a relatively small number of branded products, instead promoting their own Woolworths branded private labeled products. For many products, Woolworths only offers two choices, the leading brand-name product and Woolworths own private label. Price points are slightly higher than Checkers and Pick n Pay but relatively comparable to similar retail markets in the U.S.

According to Wendy Hall, Business Day, during 2004/2005 Woolworths has opened a number of forecourt convenience food stores in partnership with Engen Gas Station to make inroads into the R4-billion equivalent \$0.6 billion 24-hour convenience retail market, which is growing at about 16% a year. The chain store plans to open at least 24 more by the end of 2008. According to I-Net Bridge, in 2004 three different cards (a store charge card, a cash card and a visa card) coupled with stores were launched to boost sales and improve customer relationship.

According to the research by M+M Planet Retail – www.planetretail.net, in 2003 Woolworths (RSA) was ranked number six of the top 10 retailers in Africa & the Middle East, with net sales of USD1.4 billion with a market share of 1.8%. The net sales only reflect the retailer's shareholdings in the countries where they operate.

Spar: The Spar organization is made up of two types of members: Spar Retailers who are independent store owners, and Spar Distribution Centers, which provide leadership and services to the Spar Retail members. Both members belong to the Spar Guild of Southern Africa, a non-profit company set up to coordinate and develop Spar in Southern Africa. The members pay subscriptions to the Guild, which uses these monies to advertise and promote Spar. The Spar grocery chain emerged in the 1963 when a group of 8 wholesalers was granted exclusive rights to the Spar name in South Africa to service 500 small retailers. A number of mergers and take-overs followed, and today all but one of the wholesalers are owned by the Spar Group Limited which operates 6 distribution centers that supply goods and services to 755 Spar Stores in South Africa comprising of 102 Superspar, 474 Spar, and 188 Kwikspar.

All stores are independently owned, and many of the purchasing decisions are made at the individual store level. Spar targets high-income consumers and locates its stores in more up-market neighborhoods. Shopping at a Spar can be similar to shopping at a really good Giant or Shaw's in an up-market neighborhood in the U.S.

According to the research by M+M Planet Retail – www.planetretail.net, in 2003 Spar (RSA) is ranked number seven of the top 10 retailers in Africa & the Middle East, with net sales of USD1.3 billion with a market share of 1.8%. The net sales only reflect the retailer's shareholdings in the countries where they operate.

2.2 Convenience Stores

2.2.1 Entry Strategy:

Convenience is a relatively new trend in the South African Fast Moving Consumer Goods (FMCG) market. Major wholesalers and retailers own most of the convenience stores in South Africa, and contact has to be made direct with wholesalers and retailers concerned. Convenience stores operate on extended shopping hours. As with supermarkets, success in this field depends on actively promoting the product to the consumer.

Currently, more stores are trading seven days a week, creating a greater opportunity to reach shoppers. Allied to this, Sunday trading is becoming increasingly important as the trend towards convenience continues. Month-end shopping remains extremely significant.

South Africans certainly mirror global consumers in fast increasing requirements for convenience. Longer working hours and the current lack of efficient public transport accelerate the demand for portable and prepared products. As more women enter the workplace, convenience becomes more important. Baby foods is another of the four fastest growing categories with an annual value growth of + 24.5%, clearly influenced by this economic transition.

Despite requirements for convenience, South African manufacturers are not yet fulfilling these needs adequately. Products ranges are still limited and distributed through limited retail outlets targeted at the higher income consumers.

2.2.2 Market Structure:

The market structure is covered in detail under the supermarket section of this report.

2.2.3 Major Convenience stores profile:

Retail Name	Ownership	Turnover (\$M)	Number of Outlets	Location	Type of Purchasing Agent
OK Franchise Division: -Ok Grocer -OK Foods -OK MiniMark	Convenience stop shops owned by Shoprite Holdings	Not available	102	Nationwide	Direct/Importer
Friendly Shoppe's	Convenience stop shop owned by Metcash Wholesaler	Not available	53	Nationwide	Direct/Importer

2.3 Traditional Markets

2.3.1 Entry Strategy: Food retailers in South Africa range from highly sophisticated supermarkets at one end to primitive little street corner stalls at the other. Previously, predominantly black townships were virtually unserved in terms of retail infrastructure. The informal retail sector in South Africa is increasingly recognized by manufacturers and wholesalers as an important delivery channel of goods to consumers. Informal market retailers cater to the needs of the residents via independent grocery stores such as cafes, general dealer stores and several informal South African retails concepts (tuck shops, shebeens, taverns and spazas) including hawkers (street vendors). With the end of apartheid, major retailers have extended their services to these townships as well but spaza shops are making their presence felt. Marketers saw the spaza as the beginning of a new form of township convenience retailing, conveniently close to consumers, and open at extended hours.

Spaza shops are defined as small retail enterprises operating from a residential stand or home, engaged in the trading of consumer goods. Spaza shops operating mainly in the townships are making their presence felt in the local retail market.

The informal retail market in South Africa is an important player, with an estimated turnover of R34-billion equivalent \$5 billion. The informal sector is acknowledged as an important delivery channel of goods to customers. However, the view is held that this sector may have peaked, as more formal shopping centers are being developed in disadvantaged areas. Currently, more stores are trading seven days a week, creating a greater opportunity to reach shoppers. Allied to this, Sunday trading is becoming increasingly important as the trend towards convenience continues. Month-end shopping remains extremely significant.

On average, start-up investment for spaza shops amounts to less than \$1000 mainly financed by private savings or loans from relatives or friends. Average employment amounts to almost 3 employees per business. Considering that the number of spazas may amount to over 100,000, this sector of the national economy could be providing between 230,000 to 290,000 jobs, and supporting more than a million people. The most important products sold by spaza shops are (in descending order): soft drinks, cigarettes, paraffin, candles, maize meal, alcoholic beverages, bread and sugar.

There is now growing awareness among manufacturers and producers of the importance of the spaza retailers as a marketing channel. More than 20% of spaza owners report that products such as soft drinks, dairy and bakery products are now delivered to their shops. The most serious problems encountered by spaza owners are shortage of trading stock/finance (38.8%), high levels of crime and robbery (25%), severe competition (20.6%), expensive transport (19.7%), and bad debt or the granting of too much credit (17.1%). Although spaza retailers are often seen as survivalist enterprises, it is clear spazas are becoming not only a permanent phenomenon on the South African economic scene, but more sophisticated and closely linked to the rest of the economy than commonly perceived.

2.3.2 Market Structure: The market structure is covered in detail under the supermarket section of this report.

2.3.3 Traditional Market profile: Wet markets in South Africa have traditionally been similar to those in most developing countries. Informal market retailers cater to the needs of the residents via cafes and several informal South African retails concepts (tuck shops, shebeens, taverns and spazas) including hawkers (street vendors). With the end of apartheid, major retailers are extending their services to these townships as well, but spaza shops are still critical for township convenience retailing.

Section 3: Competition

Exports: South Africa's agricultural exports for 2004 reached a total of \$4.496 billion, up from \$4.051 billion in 2003. South Africa's five largest export destinations were the U.K. (\$562.223 million), Japan (\$486.588 million), the Netherlands (\$437.157 million), Italy (\$222.317 million) and the United States (\$202.419 million). South Africa's most important exports to the United States are fresh citrus, wine, tree nuts, fruit juice, lobster, non-coniferous wood chips, and value-added wood products.

Imports: South Africa's total agricultural imports for 2004 rose to \$2.877 billion from \$2.1 billion in 2003. The leading suppliers were Argentina (\$454.884 million), Brazil (\$283.776 million), the United States (\$239.91 million), Thailand (\$197.445 million), and Malaysia (\$161.833 million). South Africa's major imported agricultural commodities from the United States in 2004 were wheat, coarse grains, other prepared foods such as frozen and canned vegetables, other intermediate agricultural products, hardwood lumber and hides & skins.

Market promotions by other European countries such as the United Kingdom are similar to USDA organized programs such as food shows, in-store promotions, and trade missions.

South Africa's major retailers have joined forces with the Proudly South African (PSA) campaign, launched by the Government including the South African Bureau of Standards Holdings (SABS Holdings), to give PSA suppliers preferential tendering for shelf space, as well as to promote South African-made products and services.

Section 4: Best Products Prospects

A. Products Present in the Market Which Have Good Sales Potential:

Five-year trends show that some U.S. Consumer-Oriented Agricultural exports to South Africa are growing. Of interest is the BICO Other Consumer-Oriented Products sub-category, which reached a 30-year high in 2004 of \$11.4 million. Within this sub-category, other food preparations (HS210690) have shown consistent and substantial increases. Other high value exports that have shown sustained growth are almonds (HS08021200), pistachios (HS08025000), canned pink salmon (HS16041100), whiskey (HS220830) and vegetable seeds (HS120991).

According to 2004 data, the United States enjoys a dominant position in the almond, canned salmon and other food preparations markets, holding 86.27%, 69.61% and 23.95% of market share respectively. The whiskey market is significantly different. In 2003, the U.K. held 85% of market share while the United States held only 6.68%. However, the United States increased whiskey exports to South Africa in 2003 and 2004 and now holds 23.95% of the market. The U.S. has seen annual growth increase over the past 5 years by an average of 21% per year in this sector. This growth may be due, in part, to a South African preference for successfully promoted American branded products (Jack Daniels, for example). This preference is expected to continue and should help other American products be more competitive in South Africa. This along with successful marketing techniques and brand awareness may lead to the growth of other American-branded, high-value products.

Product Category	2004 South Africa Market Size	2004 U.S. Exports to S.A. (\$1,000)	Annual Import Growth U.S.	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for U.S.
Whiskey HS220830	114.789	16.656	239.44		United Kingdom has large market share and a first mover advantage.	American brands are considered high quality and attract new, younger consumers.
Pistachios HS08025000	0.67	0.187	58.24%	Free	Iran has 69.28% Market Share	
Almonds HS08021200	4.815	4.154	61.22%	Free		U.S. has largest market share.
Canned Pink Salmon HS16041100	2.65	1.845	109.84 %	25%		U.S. has largest market share.
Other Food Preparations HS210690	70.409	16.863	49.48%	Varied		American brands are becoming increasingly popular given their high quality attributes
Vegetable Seeds HS120991	11.275	3.068	10.62%	Free	Netherlands leads sector with 32.59% Market Share	

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential:

The retail food sector continues to expand and supermarkets chains and convenience stores are rapidly becoming the dominant retail outlets. South Africans have always been big meat eaters, with fish often a second choice for shoppers. The demand for fish has increased and now more consumers are eating fish as a healthy alternative to meat as they realize the positive benefits of adding fish to their diets.

Findings shows that pulses, breakfast cereals, pancake mix, egg products, beverage and dairy products have good sales potential.

C. Products Not Present Because They Face Significant Barriers:

Most retail food products may be imported into South Africa with little or no import restrictions. However, there are import requirements and other factors that affect U.S.

agricultural imports, mainly non-tariff barriers, such as veterinary and health requirements, labeling, food safety requirements, and shelf life requirements.

In July 2000, South Africa imposed prohibitive anti-dumping duties on U.S. chicken leg quarters, an action that has virtually cut off U.S. chicken exports to South Africa.

On September 16, 2005, the International Trade Administration Commission (ITAC) of South Africa initiated in Notice No. 1737 of Government Gazette No. 28011 of 2005 a sunset review of anti-dumping duties on frozen meat of fowls of the species *Gallus Domesticus* cut in pieces with bone-in originating in or imported from the United States. The review is based on prima facie information submitted by South African Customs Union (SACU) industry indicating that expiry of duty on December 27, 2005 would likely lead to continuation or recurrence of dumping and material injury.

Earlier in 2004, the South African Poultry Association (SAPA) petitioned the government to increase the general MFN duties on all poultry meat products, but the government only approved an increase in the duty on imports of poultry offal. Given the competitive pressures and protectionist nature of SAPA, we can expect more of their appeals to the government. But it is Brazil that has taken over from the USA as the leading foreign supplier of frozen chicken and turkey meat to South Africa during 2001 - 2004, and it will be interesting to see how effectively the South African poultry industry can lobby its government to restrict future trade from one of its closest "South-South" allies in the field of international trade.

At this time the USDA is working with the South African Department of Agriculture to increase the types of fresh fruit such as apples that can be shipped from the United States to South Africa.

Section 5: Post Contact and Further Information

If you have any questions or comments regarding this report or need further assistance, please contact AgPretoria at the following address:

Foreign Agricultural Service
U.S. Embassy Pretoria, South Africa
Washington, D.C., 20521-9300
Tel: +27-12-431 4235
Fax: +27-12-342 2264
Email: agpretoria@fas.usda.gov

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service's website at: <http://www.fas.usda.gov>

Post acknowledges the following sources: Retail industry publications and websites; ACNielsen Researchers, Global Trade Atlas, and local retail publications.